MADISON PARK
CAPITAL ADVISORS

Weekly Market Update

January 3, 2017

Waiting for 2017

Yes, 2017 is now upon us, but markets took some time off along with everyone else last week as they anticipated this New Year. While the financial media was fixated on the purely symbolic 20,000 threshold, the Dow Jones Industrial Average fell back and recorded its first weekly loss since the beginning of November. The technology-heavy Nasdaq Composite, which has lagged in the postelection rally, again trailed and ended 2016 with the smallest gain among the major domestic benchmarks.

The few economic reports released during the week did not appear to have much of an effect on sentiment. On Tuesday, the Conference Board reported that its gauge of consumer confidence had reached its highest level in 15 years, although the rise was due to upgraded expectations rather than an improvement in Americans' assessment of their current financial situations. Data later in the week showed weekly jobless claims remaining at a low level, and a regional manufacturing gauge showed improvement.

Stocks suffered most of their losses on Wednesday, with the S&P 500 recording its largest decline (-0.84%) since October. Sentiment may have been dampened by news that pending home sales had declined in November to their lowest level since the start of the year, due both to the recent rise in mortgage interest rates and a shortage of homes for sale. A more important factor in the selling, however, appeared to have been pension funds and other institutional investors rebalancing their portfolios to reflect recent equity appreciation.

In Europe, subdued trading was the norm as well, with some days' volume not even reaching half of the 30-day average. The pan-European benchmark Stoxx Europe 600 rallied early in the week, reaching its highest closing on Wednesday since December 31, 2015, helped by mining stocks as a recovery in commodities prices continued. The equities rally softened by the end of the week, as some investors expressed concerns that the rise may have come too far too fast.

Troubles in the Italian banking sector continued. The European Central Bank (ECB) estimated that a rescue of Italy's most troubled (and the world's oldest) bank, Monte dei Paschi di Siena, would require about €8.8 billion in new capital, a much higher figure than the €5 billion the bank said just last week was necessary for a bailout. Essentially, the ECB is saying that more Italian taxpayer money will be needed to rescue Italy's troubled banking system, which means an even heavier weight on the country's public finances. The bank's shares have been suspended from trading since last week.

Shifting to the other side of the globe, China does not have to meet the country's gross domestic product (GDP) 6.5% growth target in the coming years if doing so would create too much risk, President Xi Jinping told a recent meeting of Communist Party leaders, according to published reports. **Xi's comments, which triggered a temporary sell-off in global commodities markets, marks a departure from policymakers' pledge last year to maintain at least 6.5% growth for five years through 2020.**

The Russian stock market, which was one of the world's top performers in 2016, continued to move higher in the last trading week of 2016. **The rise occurred despite the announcement by the U.S. on Thursday that it was expelling 35 Russian diplomats in retaliation for the country's alleged role in hacking Democratic National Committee emails** during the U.S. presidential campaign. Russia said on Friday that it would not take further action against U.S. diplomats.

On that happy note, **we do authentically wish you and yours a tremendous New Year.** 2016 was a wild ride in the financial markets and the political world, and we really are left to wonder what is in store for 2017. Regardless of what is coming our way, we remain grateful for the opportunity to partner with you. We'll keep a close eye on the markets, and will continue to keep you updated through this weekly blog and our regular check-ins with each of you.

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